



**MICHIGAN SERA COUNCIL
STATE EMPLOYEE RETIREES' ASSOCIATION**

EMERITUS MEMBERS

John Adams (12/12/22 - 1/18/03)
Zetta Eby (3/28/11 - 10/23/02)
John Gambotto (11/4/09 - 5/18/90)
Lindy Guy
Polly Guy
Ralph Horrocks
Clarence Rosa (7/13/12 - 11/23/90)
Edward Setlock

**Michigan State Employee Retirees Association Council's
Presentation to the
House Retiree Health Care Reforms Committee**

Thank you, Mr. Chairman and Members of the Committee. My name is Robert Kopasz and I am Chairman of the Michigan State Employee Retirees Association Council, commonly known as the SERA Council. With me today are Alvin Whitfield, SERA's Legislative Representative and Duane Marlan, former Employee Benefits Director. I believe you are all familiar with our purpose and statewide organizational structure inasmuch as this is not the first time representatives of our organization have appeared before this Committee. Our organization has been monitoring activities of the Committee since its inception and has been impressed with what appeared to be its broad brush approach to the multi-billion dollar problem of the state's unfunded liability for other post employment benefits. When I made the original request to be scheduled for a presentation before you, it was my intent to add SERA's voice to the dialogue on this issue. Since that time, the introduction of HB 5545 has caused this presentation to be more narrowly focused. Thus, this presentation will address our concerns regarding more recent Committee actions and pronouncements.

SERA has long sought enhancements to the pensions of retirees, especially those who have been retired for many years and whose pensions have been eroded by inflation. Pension adjustments were made in 1972, 1974, 1976, 1977, and 1987. It is interesting to note that the last time an adjustment was made to the pensions of retirees in order to

overcome the impact of inflation was 21 years ago when Public Act 57 1987 took effect. This Act increased the pensions of those who retired prior to October 1, 1986, with individuals who had been retired the longest receiving the largest increases. Many of the retirees who benefited from that adjustment are now facing the same problem they faced then and have been joined by other retirees who are struggling to make ends meet. In 1983 eligible retirees began to share in a distribution of investment income earned in excess of 8% annually. This distribution, commonly known as the "Thirteenth Check" was phased out in the early nineties which resulted in a real loss of income for many pre-October 1, 1986 retirees. It should be noted that beginning October 1, 1988, a 3% non-compounding annual adjustment was made on pensions with the adjustment being capped at \$300 or \$25 per month. We have many members whose annual pensions do not approach \$10,000 which means they receive something less than the \$25 maximum. SERA's efforts to obtain adjustments to the pensions of long-retired state employees has been unsuccessful because of an unsympathetic administration in the 1990s and the state's well established fiscal problems over the last six or seven years. I mention these issues hopefully to permit the Committee members to better understand how your action will be perceived by many retirees already under financial strain.

As you know from previous testimony, OPEBs for state retirees are approved by Civil Service and are generally patterned after the benefits received by active employees through the collective bargaining process. However, it must be noted that employee unions do not bargain on behalf of retirees. The State Employees Retirement Act [MCL 38.20d] mandates health plan premiums for Defined Benefit Plan retirees be paid in the same proportion as for active employees. The newly negotiated contract sets active employees state paid premiums at 90%. SERA believes this is an equitable arrangement which eliminates the potential for unanticipated changes in retiree premium sharing.

A Memorandum of Understanding is authorized and executed between the Michigan Civil Service Commission and the Department of Management and Budget to reflect health benefit changes in the plan design. A copy of the most recently negotiated agreement is attached and identified as Attachment I. Effective January 1, 2008 eligible retirees are covered by the BC/BS Medicare Advantage Plan (Medicare Plus Blue Group). It is important to note that both

the former State Health Plan PPO and new Medicare Advantage Plan have a preventative services component. We believe this is a very important aspect of the retiree health plan in that it reduces potential costs by early screening and detection and preventive measures such as immunizations

Retirees have separate prescription, dental and vision plans. The prescription drug plans is provided by Express Scripts. Currently retirees have a co-payment of \$7 for generic drugs, \$15 for non-generic and \$30 for drugs not on the formulary established each year by the vendor. This 7/15/30 co-payment schedule for a three months drug supply via mail order will change to a 20/40/80 schedule in the future. Dental services are provided by Delta Dental. Vision services are provided through Blue Cross/Blue Shield. If retiree benefits providing for increased co-pays/deductibles continue as in the past, another Memorandum of Understanding must be authorized and executed by the Civil Service Commission and Management and Budget.

An historical perspective is also important to allow this Committee to understand how retirees interpreted the introduction and reporting out of HB 5545. Past experience of legislation being introduced and reported out of committee so swiftly has not been positive for SERA. Usually it signals that the legislation is on a fast track for a reason and warrants close scrutiny. Such was our perception of HB 5545 which was introduced and reported out within one week. The first thing that those interested in a bill look for is the official analysis of a bill. In the case of HB 5545, the analysis essentially repeated the contents of the bill without shedding any real light on the rationale behind it. The analysis states that there is no apparent fiscal impact.

I thank Chairman Meadows and Representatives Wenke and Moss for their participation in the Town Hall meeting hosted and sponsored by UAW Local 6000 held last week. That meeting clarified what the Committee was attempting to do through the introduction and reporting out of HB 5545. We appreciate the assurances given that the Bill will not move until concerns of those who oppose the bill are addressed. Most importantly, we appreciate the assurances given at the Town Hall meeting that it is not the intent of the Committee to reduce the benefit levels of state retirees. While the Town Hall meeting served to answer some questions our organization had, it raised a number

of other questions. The meeting also made clear that there was some misunderstanding of current roles, methods and practices pertaining to the development and final approval process of the state plan for state retirees. I wish to address some of these issues.

SERA enjoys a unique relationship with the staff of the Civil Service Commission (formerly Department) and the Office of the State Employer. This relationship, though not required, has taken many years for both parties to establish credibility and trust. We are invited to become involved in the initial discussions of the health plan design as it is being developed with the vendor (we were extensively involved in the Medicare Advantage Plan). Our reactions to potential components of the plan, alternative plan designs, etc. and implementation strategies are offered and thoroughly discussed. We are definitely an integral part before, during and after the implementation of any plan over several months period of time. Sometimes our suggestions are accepted while at other times are not. The important thing is that we thoroughly understand the plan and how it was developed which enables us to better explain any plan changes to our membership and other retirees. Further, SERA has routinely been invited to participate on the Joint Evaluation Committees that select the vendors that administer the various benefit plans. We believe that it is through our ability to fully explain the plan and why and how it was developed that is the value Civil Service and retirees obtain from our involvement. At the Town Hall meeting, Representative Meadows distributed a chart showing the process from beginning to end used by the School Employees Retirement System. By comparison, our input is made prior to any of the boxes shown on the process diagram distributed at the meeting and continues after the last box shown on the diagram.

The position of our Association on HB 5545 has been characterized as being afraid of change. This is not the case. We are opposed to specific change when there appears to be an experiential basis for fearing such change. This is the case in moving state retirees' OPEBs to the Office of Retirement Systems. Our experience with and knowledge of the operations of ORS do cause us some concern. This concern is based on the experiences of our members in dealing with the Office of Retirement Systems even on a limited basis. Our members deal with the ORS if they have issues regarding deferred compensation; a challenge to a board decision regarding disability retirements or the application of

the Retirement Act; seeking to obtain forms such as beneficiary designations or forms to request payment of death benefits, or obtaining answers on routine questions. Ready access to ORS staff by telephone for routine questions is a tremendous problem. It has been reported to us as recently as last week that a caller waits for over 35 minutes to talk to ORS staff. Also, we have waited since March of 2006 for retirees to have the ability to participate in a voluntary benefits program available to active employees. Our participation has been held up because of the ORS's inability to handle automated deductions from pension payments for retirees participating in the program. Currently active state employees have payroll deduction for the Voluntary Benefits Program but I don't believe that deduction is carried through to ORS. Further, there is no payroll deduction by ORS for a long-term care insurance program that has been offered to employees/retirees for quite some time. The VBS program that is geared toward retirees did not seem to be a priority for ORS. Let me hasten to state that the Office of Retirement Systems does an excellent job of making timely and accurate pension payments and keeping retirees informed of variances in payment dates and in distributing year-end income statements.

Please allow me to comment on some of the unanswered questions which we may have regarding HB 5545:

- The questions of support for the bill is interesting in that apparently it has no supporters other than this Committee. Evidently, the Civil Service Commission and the Department of Management and Budget (we have been told that DMB is the lead agency on this issue) or the Governor's Office does not support the bill. (If the Governor's Office supported the bill, she could achieve the intent of HB 5545 via executive order).
- It is our understanding that by adding the 44,000 state retirees to the roughly 185,000 retired school employees, a larger pool would be created that would enable health providers to give greater cost reductions as a result. If Blue Cross/Blue Shield administers both plans why aren't the cost-savings being realized now?
- Implicit in gaining a cost advantage through moving state retirees OPEBs is the understanding that there will be one plan. If not one plan, the cost of administering 2 plans would be the same as it currently is. This leads us to

ask how can anyone be assured that both the State Retirement Board and the School Employees Retirement Board will each concur in the plan put before it? Two entities must both approve the same plan. What happens if they do not? (In previous testimony it became apparent that many on the committee and people in the audience were not aware of the composition of the State Employees Retirement Board or the Public School Employees Retirement Board. The representational composition [along with the names of current members] of both boards, respectively, are found in Attachments II and III. As you can see, Retirees do not make up the majority of either board as had been stated in earlier testimony.)

- Alternatively, is it the intent to have only one Board approve the negotiated plan? If so, which Board?
- Given the stated assurance that it is not the intent to reduce state retirees current health care coverage, how will this be accomplished when two unequal plans are combined? For example, school retirees have Medicare Advantage which includes prescription drug coverage. State retirees have Medicare Advantage with separate prescription drug coverage. They are not equal plans and the co-pays/deductibles are different. Which plan will prevail *or* would the intent be to continue separate plans?
- Has there been any attempt to quantify the savings which we understand to be the basis for HB 5545?

I have recently received an answer to a request for information from Civil Service/Employee Benefits that details the cost savings for state retirees. The information shows projected cost savings for 2009 (if the Collectively Bargained changes are passed on to retirees) as well as past cost savings as a result of benefit plan changes. As you can see in Attachment IV the total cost savings are significant. The State and Employee Unions are (and have been) aggressive in their desire to reduce health care costs, as are retirees.

I would also like to bring to the Committee's attention that the "early-out" legislation that was passed in 2001 also contained a provision to establish a health care pre-funding account for retirees. Over the past few years, money had

been deposited in this account but was then withdrawn in order to be used for other purposes. These withdrawals were approved by both the Senate and House Appropriations Committee. A health care pre-funding account is one of the solutions being considered by this committee. Why not utilize the pre-funding account that is already established but insure that the money would only be withdrawn for Retiree Health Care?

I sincerely hope this presentation has positively contributed to the dialogue regarding solutions to the OPEB unfunded liability issues. We look forward to the opportunity to make future input to the Committee. Any additional information the committee could share would be appreciated so that we can share with our member and other state retirees.

We will be more than happy to answer any questions the Committee may have.

JENNIFER M. GRANHOLM
GOVERNOR



STATE OF MICHIGAN
CIVIL SERVICE COMMISSION

JAMES D. FARRELL
STATE PERSONNEL DIRECTOR

COMMISSIONERS

BRYAN J. WALDMAN,
CHAIRPERSON
ANDREW P. ABOOD
SHERRY L. McMILLAN
THOMAS M. WARDROP

October 15, 2007

Mr. M. Scott Bowen
Director
Office of the State Employer
P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Bowen:

The State Personnel Director has received and considered the attached inter-agency memorandum of understanding regarding retiree insurances. With the consent of the Chair of the Civil Service Commission, the director has granted interim approval of the memorandum. The enclosed document serves as official notice of the interim approval.

The director will place this interim approval on the agenda for final consideration by the commission at its next meeting. If you have any further questions, please feel free to contact me at (517) 373-2611.

Sincerely,

A handwritten signature in black ink, appearing to read "John Gnodtke".

John Gnodtke

Attachments

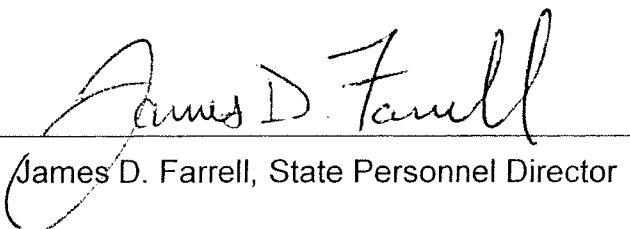
cc: James D. Farrell, DCS
Lisa Webb Sharpe, DMB
Phil Stoddard, ORS
Susan Kant, EBD
Bob Kopasz, MI-SERA

Michigan Department of Civil Service

**INTERIM APPROVAL OF INTER-AGENCY
MEMORANDUM OF UNDERSTANDING**

RETIREE INSURANCES

As provided in Section 2.7 of the bylaws of the Civil Service Commission and in Civil Service Commission Rule 1-1.4, and with the consent of the chair of the Civil Service Commission, the Director approves the attached inter-agency memorandum of understanding on an interim basis. The memorandum of understanding will be placed on the agenda of the next Commission meeting for final action. If a majority of a quorum of the Civil Service Commission does not approve the memorandum of understanding before the adjournment of the Commission's next meeting, this interim approval expires.


James D. Farrell, State Personnel Director

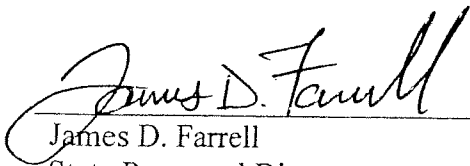
10/15/07
Date

INTERAGENCY MEMORANDUM OF UNDERSTANDING

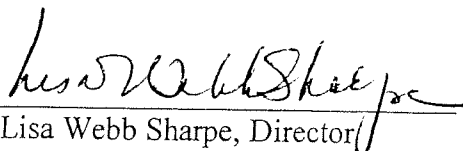
Retiree Health Benefits

This is a memorandum of understanding (MOU) between the **Michigan Civil Service Commission** and the **Michigan Department of Management and Budget**.

1. Upon approval by the Civil Service Commission, this MOU constitutes a joint agreement regarding retiree health benefits as provided in the State Employees' Retirement Act [MCL 38.20d], State Police Retirement Act [MCL 38.1642], and Judges' Retirement Act [MCL 38.2509]. This MOU does not apply to persons retiring from the State Police enlisted unit on or after October 1, 1987.
2. Effective January 1, 2008, the health plan for all Medicare-eligible retirees and dependents is changed as follows:
 - A. The State Health Plan PPO for all medicare-eligible retirees administered by Blue Cross Blue Shield of Michigan (BCBSM) is replaced with the Medicare Advantage plan administered by BCBSM.
 1. The Medicare Advantage plan may include the mental health and substance abuse services currently administered separately by Magellan Behavioral of Michigan if the State Personnel Director and the Director of the Department of Management and Budget jointly agree that such inclusion is practicable.
 2. The Medicare Advantage plan does not include prescription drug, dental, or vision coverage currently administered by Express Scripts, Inc., Delta Dental Plan of Michigan, or BCBSM, respectively.
3. To the extent practicable, the health care benefits, coverages, exclusions, deductibles, and copays under the State Health Plan Medicare Advantage on January 1, 2008, are to be substantially equivalent to the health care benefits, coverages, exclusions, deductibles, and copays available under the State Health Plan PPO for retirees not eligible for Medicare. However, the State Personnel Director is authorized to approve changes in benefits, coverages, exclusions, deductibles, and copays that are necessary to implement or administer the Medicare Advantage plan.


James D. Farrell
State Personnel Director

Date: 10/10/07


Lisa Webb Sharpe, Director
Department of Management and Budget

Date: 10/9/07

MOU Approved by Civil Service Commission: _____, 2007

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members *

Douglas Drake, Chair
Retiree Member
Term Expires July 31, 2007

H. David Dekker
Employee Member
Term Expires July 31, 2008

Calvin Frappier
Retiree Member
Term Expires July 31, 2009

George M. Elworth
Representing Attorney General
Statutory Member

Craig Murray
Representing Deputy Auditor General
Statutory Member

John Schoonmaker
Representing Commissioner of
Finance & Insurance Services
Statutory Member

D. Daniel McLellan
Representing State Personnel Director
Statutory Member

Mark Haas, Vice Chair
Representing State Treasurer
Statutory Member

Harry Posner
Employee Member
Term Expires July 31, 2009

* Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuaries
Gabriel Roeder Smith & Co.
Alan Sonnenstine
Southfield, Michigan

The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Legal Advisor
Mike Cox
Attorney General
State of Michigan

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

Investment Manager and Custodian
Robert J. Kleine
State Treasurer
State of Michigan

**Investment Performance
Measurement**
State Street Corporation
State Street Analytics
Boston, MA

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members*

Ivy Bailey
Active Classroom Teacher
Term Expires March 30, 2008

William Lawson, Jr.
Retired Finance/Operations
Term Expires March 30, 2007

Lenore Croudy
Community College Trustee
Term Expires March 30, 2008

Diana Osborn, Chair
Active Non-Certified Support
Term Expires March 30, 2009

Gary Allen
Active Superintendent
Term Expires March 30, 2009

Marc Whitefield
General Public - Investments
Term Expires March 30, 2008

Richard Montcalm
Active Finance/Operations,
Non-Superintendent
Term Expires March 30, 2008

Edwin Martinson
Reporting Unit Board of
Control
Term Expires March 30, 2008

Martha Pichla
Active Classroom Teacher
Term Expires March 30, 2009

Jeffrey Hoffman
General Public -
Actuary/Health Insurance
Term Expires March 30, 2006

Gail Nugent
Retired Teacher
Term Expires March 30, 2006

Dr. Jeremy Hughes
Statutory Member
Representing State
Superintendent of Education

* Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

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Alan Sonmanstine
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The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Legal Advisor
Mike Cox
Attorney General
State of Michigan

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

Medical Advisors
Gabriel Roeder Smith & Co.
Southfield, Michigan

**Investment Manager and
Custodian**
Robert J. Kleine
State Treasurer
State of Michigan

**Investment Performance
Measurement**
State Street Corporation
State Street Analytics
Boston, MA

JENNIFER M. GRANHOLM
GOVERNOR



Attachment IV

STATE OF MICHIGAN
CIVIL SERVICE COMMISSION

JAMES D. FARRELL
STATE PERSONNEL DIRECTOR

COMMISSIONERS

BRYAN J. WALDMAN, CHAIR
ANDREW P. ABOOD
SHERRY L. McMILLAN
THOMAS M. WARDROP

January 14, 2008

Mr. Bob Kopasz, Chair
SERA Coordinating Council
P.O. Box 692
Mt. Morris, MI 48458

Dear Mr. Kopasz:

Pursuant to SERA's request for cost savings for the State retiree health plans, the following are estimated State savings if the health changes recently approved by the Civil Service Commission for active non-exclusively and exclusively represented employees were applied to retirees in FY 09. As you are aware, changes in state retiree health plan benefits are authorized by the Civil Service Commission and the Department of Management and Budget pursuant to statute (MCL 38.20d).

SHP and HMO Premium Split Change	\$10.2 million
SHP Deductible Increase	\$4.6 million (based on 9 months – an additional \$1.5 million will be saved in FY 2010)
SHP Office Visit Co-pay Increase	\$3.5 million
SHP Emergency Room Visit Co-pay	\$1.9 million
SHP Prescription Drug Co-pay Increases and Drug Programs	\$27 million

The total FY 2009 estimated savings, if health insurance changes are applied to state retirees, is \$47.2 million. The premium split change savings of \$10.2 million for defined benefit plan retirees is scheduled to occur under the current statute which requires that health plan premiums for defined benefit plan retirees be paid in the same proportion as for actives.

In addition to the above potential savings, in January of 2008, state retirees enrolled in the State Health Plan PPO were converted to a Medicare Advantage plan. This plan

combined Medicare and BCBSM claims and payments processing for an estimated savings of \$20 million in the first year alone.

In 2006, a Medicare Prescription Drug Part D program was implemented for state retirees, providing a subsidy to the state averaging \$22 million annually.

The state has implemented several prescription drug savings initiatives as the result of changes approved by the Civil Service Commission covering active employees which were also extended to retirees. The following are recent highlights of the retiree savings achieved:

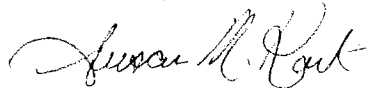
3-Tier Co-pay Implementation	11/1/04 – 12/31/07	\$7.6 million
Drug Quantity Management Savings	10/1/05 – 9/30/07	\$2 million
\$0 Co-pay Program Savings	11/1/05 – 4/30/06	\$71,000
CuraScript Savings	10/1/05 – 12/31/07	\$770,000
Prior Authorization Savings	10/1/05 – 9/30/07	\$1.6 million

On November 1, 2004, the state introduced the Support Program for state retirees providing a network of stores that supply members with durable medical equipment. For state retirees, there has been an estimated savings of over \$5 million to date.

The state has also saved over \$20 million annually when the basic/major medical insurance program was changed to the State Health Plan PPO administered by BCBSM for all active and state retiree members on January 1, 2003.

Should you require any additional information, please do not hesitate to contact our office.

Sincerely,



Susan M. Kant
Director
Employee Benefits Division